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THE RUDIMENTS

OF THE

CURRENCY QUESTION,

EXPLAINING THE PRINCIPAL

Terms used in the Controversy.

Reprinted from "THE AUSTRALIAN FINANCIAL ADVISER."

By

WILLIAM PEARSE,

Sydney, Australia.

LONDON:

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PREFACE.

It may be almost positively asserted that the great body of educated people are more absolutely uninformed about the Currency Question than about any great question of the present day. There is certainly no subject connected with commercial affairs, domestic and international, that is so little understood, or so greatly misunderstood, by those whom we should expect to possess accurate and thorough knowledge of it;* and there is no subject of which our ignorance leads us into so many and so grievous errors whenever circumstances force us into contact with it. While thus, through ignorance, straying wildly from the truth, we are further misled by the grave mistakes and wild misrepresentations of writers either incompetent or prejudiced, or deliberately false and playing upon the public lack of knowledge for the purpose of concealing the truth and preventing us from clearly apprehending it. Wherefore, though deeply conscious of my own inadequate powers, yet earnestly desirous that the truth should be made manifest to all, I offer this short treatise on "The Rudiments of the Currency Question" as a feeble attempt to dispel some of the clouds which have hitherto obscured it. Throughout I shall endeavour to state only actual facts and admitted truths, as far as possible avoiding debatable issues and matters of opinion.

In the unshakable conceit of ignorance, some regard this as a subject of no importance to them, or to the world at large. On the other hand, men of the highest and most cultivated intellect assert the contrary.

To ordinary readers the great controversy on the "Currency Question" is rendered obscure, and therefore uninteresting—first by the use of recondite terms, and secondly by the extraordinary diversity of the currency systems of the various nations of the world. This little work is written for the purpose of making these difficulties clear to all who seek information on the subject,

* See the estimation in which Sir John Lubbock is held by Mr. H. D. Macleod (*Contemporary Review*, April, 1899, page 562).

ınd at the same time to afford some insight into the ground-
vork of the matters in dispute.

The First Part deals with definitions of the terms met with n connection with the Question ; the Second Part treats of the ;ystems of Banking and Currency in force in different countries. As these latter are so diverse and complex, it is impossible for ;hose who have no special knowledge of the subject to compreıend the meaning of the changes taking place or advocated in ›ther countries. Even the common currency news of the day ıas no meaning to the uninitiated multitude, and carries to their ninds no thought of the vast interests involved of the tremenlous importance of the great questions in dispute, or even of ;heir own interest in them.

Too many suppose that changes in the currency systems of :oreign countries do not affect us or the people of any other ;ountries but those immediately concerned. In Australia, for nstance, where "gold" is the sole legal tender, and cheques ;he principal currency, we cannot understand the system in force n the United States of America, where Government paper is egal tender and the principal currency, or the real importance ›f the recent discussions on the Silver Question, unless we know ;omething of the complex currency of the country.

We may wonder what "the Silver party" are trying to do, ınd why they should wish to introduce another change in a ;ountry where currency changes are so frequent. But we can ırrive at no conclusion without some knowledge to guide us.

As an introduction to the controversy between Monometallism ınd Bimetallism, some such work as the present is indispensable, ınd though there is here no pretence at an exhaustive vocabuary, it is hoped that it will be found sufficient for the purpose ıbove indicated.

For the sake of convenience of reference an index of the nost important terms and also a chronological table of principal ›vents will be found at the end.

W. PEARSE.

UNION CLUB,
SYDNEY, AUSTRALIA,
5th May, 1899.

THE

Rudiments of the Currency Question.

PART I.

DEFINITION OF TERMS.

Money.—The carrying on of trade by means of barter gave rise to many difficulties, and money is the convention that was adopted in the earliest ages for the purpose of overcoming those difficulties. It may be defined as "an instrument used in commerce to facilitate exchange." Under the sanction first of custom, and afterwards of law, it became "a medium of exchange," a common "measure of value," a "standard of value." It was intended, and at first supposed, to be a fair and permanent record of obligation over long periods of time, and to be in every way unimpeachable. It should readily and equally express the value of all kinds of goods, of service, and of labour. It should never vary in its value in relation to other things.

The supply should be equal to the demand, and be easily procurable when required.

It should be convenient to keep, to carry, and to handle; easy to reckon, and not liable to decay, or to suffer depreciation from wear and tear; and it should not be easily imitable by counterfeits.

Currency is that which is accepted as money, passing current everywhere between man and man. It consists of standard coins, and subsidiary coins or tokens, bank notes, bills of exchange, and other kinds of "promises to pay." "The word "'currency' is sometimes employed in the sense of circulating "medium, sometimes in the sense of standard of value."—PALGRAVE.

Standard Coins are composed of a certain fixed weight of bullion, whose nominal and intrinsic values are equal.

Coins "are pieces of bullion, of fixed weight and fineness, "with a public stamp upon them, to certify their weight and "fineness."—MACLEOD.

Subsidiary Coins or Tokens are those which do not contain their full weight of bullion. They are merely promises to pay, and are generally coined on Government account, under charges for seigniorage.

Bullion consists of ingots of gold or silver of standard fineness, the standard for gold being 22 carats, and for silver $\frac{37}{40}$ pure. "Bullion means gold or silver in mass, mixed with such "proportion of alloy as is ordered by law as to be fit to be "coined."—MACLEOD.

Absolutely pure gold is 24 carats fine, and sterling gold or bullion for coinage is 22 carats fine.

Seigniorage is the tax or charge imposed by the Government for coining.

A Mint is a Government establishment for the purpose of assaying, weighing, and coining bullion.

Mints are said to be open when they receive bullion, and return it in the shape of standard coins; and are said to be closed when they issue only Subsidiary or Token coins, which bring in a revenue called Seigniorage. (The Royal Mint of England is now open to gold, but closed to silver.)

Free Coinage, or Open Mints.—When Mints are not closed, they receive and coin bullion without charge, and are said "to be "open to the free coinage of gold and silver."

Mint Price.—"As the very purpose of coining is to certify "that the pieces of bullion are of a certain weight and fineness, "it is evident that a fixed quantity of bullion, as a pound weight, "must be divided into a fixed number of coins. The number of "coins into which a given quantity of bullion is divided is called "the '*Mint Price*' of that quantity of bullion.

"It is perfectly clear that the Mint price of bullion is a fixed

"quantity. It can by no possibility vary until the same quantity "of bullion is coined into a different number of coins.

"To alter the Mint price of bullion is merely an expression, "which means an alteration in the standard weight of the "coinage."—MACLEOD.

The Debasement of the Currency.—"The original measure of "value in France, England, and Scotland was the pound weight "of silver bullion. This was cut into 240 pieces, called pence. "Twelve of these pence were called a shilling, or soldus; and "20 shillings, or soldi, made a pound. These 240 pence actually "weighed a pound of bullion.

"Now, the sovereign rulers of these countries were frequently "in want of money to pursue their various extravagances; and, "as they could not make more money, they adopted the "fraudulent and surreptitious plan of cutting the pound weight "of bullion into a greater number of pieces, but still called them "by the same name. By this means they gained an illusory "augmentation of wealth. As they could not multiply the "quantity of metal, they at various periods falsified the certificate. "While still calling the coins by the same name, they diminished "the quantity of bullion in them, and so coined more than "the original number of pence out of the pound weight of "bullion."—MACLEOD.

Before National Debts were invented to raise money for war or other purposes, this was the device usually adopted by monarchs in want of funds. It is called "Debasing the Currency"—that is, issuing coins of less intrinsic value than their nominal face value.

Money Metals.—"By tacit concurrence almost all nations at "a very early period fixed upon certain metals—and especially "upon gold and silver—to serve as money. No other substance "unite the necessary qualities in so great a degree with so "many subordinate advantages. Gold and silver are eminently "divisible, and, when pure, always of the same quality, and "their purity may be ascertained and certified by public "authority. Of all commodities they are amongst the least

"influenced by any causes which produce fluctuations of value; "and from their durability, the total quantity in existence is at "all times so great in proportion to the annual supply that the "effect on value, even of a change in the cost of production, is "not sudden, a very long time being required to diminish "materially the quantity in existence, and even to increase it "very greatly not being a rapid process. Gold and silver, "therefore, are more fit than any other commodity to be the "subject of engagement for receiving or paying a given quantity "at some distant period."—J. S. MILL.

"It is, of course, impossible to have any fixed standard or mea- "sure of value, such as the standard pound weight and the standard "measure of length. The only thing which can be done is to select "some object which varies as little as may be in its relation to other "things, and make a given quantity of this the standard by which "the value of other things is measured. For this purpose mankind "has for ages used gold and silver. In other words, gold and "silver coins have not only been standard of value, but means of "exchange."—LORD FARRER.

"*Gold and Silver* alone are of small volume, of equal goodness, "easy of transport, divisible without loss, easily guarded, beautiful "and bright, and durable almost to eternity."—JEVONS.

It has been (by some) contended that copper is as good a money metal as silver, but the three authorities above quoted give good and sufficient reasons for associating silver with gold as the only chosen money metals of the world.

THE GRESHAM LAW.

"Experience has demonstrated that 'when two kinds of money "'differing in value are current, the worse drives out the better.' "This is called the '*Gresham Law*,' which plays a very important "part in the history of the Currency Question. The Law, briefly "expressed, is that bad money drives out good money, but good "money cannot drive out bad."—JEVONS.

The same authority gives the following exceedingly clear explanation of the *modus operandi* of this Law:—

"Though the public generally do not discriminate between the "coins, provided there is apparent similarity, a small class of money- "changers, bullion-dealers, bankers, or goldsmiths make it their

"business to be acquainted with such differences, and know how to "derive profit from them. These are the people who frequently "uncoin money, either by melting it or by exporting it to countries "where it is sooner or later melted."

It is further explained by another eminent authority in the following words:—

"If the fixed legal ratio of the coins differ from the market value "of the metals, the coin which is underrated entirely disappears "from circulation, and the coin which is overrated alone remains "current. It is impossible for good, full-weighted coin, and base and "degraded, or clipped and worn coin to circulate together. All the "good coin is hoarded, melted down, or exported, and the degraded "and debased, and clipped and worn coin alone remains in circula- "tion."—ORESME.

This law is equally potent in other cases, and produces the same effects when paper money, not readily convertible into gold, is issued by the Government of any State.

THE BULLION COMMITTEE.

In the year 1810 a Committee was appointed by the English Parliament to investigate the state of the Currency at that time. From 1798 up to that date specie payments by the Bank of England had been suspended. The precious metals had become scarce in England, and in consequence of the issue of inconvertible notes by the Bank, a sovereign ($\frac{1}{4}$ oz. of gold) had become of more value than a £1 note.

And this phenomenon the Bullion Committee was called upon to investigate.*

The fact was at that period notes of the Bank of England were full legal tender, and inconvertible (*i.e.*, the Bank was not bound to redeem them in specie), and gold had risen in price to 90s. per oz., and silver to 5s. 8d. per oz., if paid for in these

* The Bullion Committee reported that light guineas were selling at 27s. But "the House of Commons entirely rejected the decision, and voted by a large majority (of which Sir Robert Peel formed one) that in public estimation guineas and bank notes were equal; that is, that 21 is equal to 27." (*See* Macleod's "Elements of Banking," p. 226, and "Elements of Economics," p. 343.)

notes. Similar results have been observed in other countries where a large issue of inconvertible paper money had been resorted to for the purpose of relieving the financial embarrassments of the Government.

Fiduciary Issue.

When a Bank is *not compelled* to keep in reserve an amount of coin or bullion sufficient to cover the notes issued by it, these are called "Fiduciary Notes," implying the absence of any provision or positive security for their conversion into coin.

Inconvertible Notes.

When bank notes are declared to be "full legal tender," and the Bank is not compelled to pay them in coin on demand, they are called "Inconvertible Notes."

Legal Tender.

In White's "Currency and Banking," legal tender is declared to be—

> "That which a debtor may deposit in payment of a debt, and "claim his discharge."

It may, perhaps, be more clearly defined as a species of currency, or medium of exchange, which the law requires to be given and received in discharge of a debt.

Capital may be defined as "any form of realised wealth."

A Capitalist is the owner of any form of realised wealth. The narrower signification of the term in common usage is :— "One who has money either in actual possession or at actual "command."

A *Creditor Capitalist* is essentially a money-lender, or who has money invested in "land let on long leases," Government stocks, debentures, or any form of gilt-edged security. These persons are generally non-producers. Between the "creditor capitalist" and the risk of loss there stands the borrower, with all the securities he can offer. If loss is incurred, it falls first upon the borrower, and only when his means are utterly exhausted does it fall upon the "creditor capitalist," which very seldom happens.

An *Industrial Capitalist*, on the other hand, is a producer and a money-user: one who invests money actively and directly in some business or reproductive enterprise yielding either profit or loss.

The distinguishing characteristic of the *Industrial Capitalist* is, that whether his capital is his own or merely borrowed, he faces the element of risk without any security. The success or failure of his operations depends upon the vicissitudes of the seasons, the fluctuations of the market, the changes of conditions, favourable or adverse.

A *State Bank* is a Government institution or department owned and managed by the State Government, and issuing notes either wholly "fiduciary" or partly covered by a reserve of coin.

The best example of a State Bank at the present time is the Treasury of the United States of America, which manages all the Federal financial business. It issues notes, not against specie, but backed by the national credit. As elsewhere explained, it is compelled by law to maintain a reserve of 100,000,000 dollars in gold, and a few years ago was hampered with restrictions regarding the purchase and coinage of silver. Its notes are a legal tender, except where otherwise specified in the contract.

A *National Bank* is a private proprietary institution holding a charter from the State Government, and generally manages the financial affairs of its Government. It is protected by State authority, and is to a certain extent the visible embodiment of the national credit. In return for its privileges of being allowed to issue notes which are declared a "legal tender" within the State, it has certain duties to perform, and is generally the intermediary between the Mint and the public.

The Quantitative Theory, or *the Quantity Theory of Money*:—

> "That an increase of the quantity of money raises prices, and a "diminution lowers them, is the most elementary proposition in the "theory of currency, and without it we should have no key to any of "the others."—J. S. Mill.

Remonetise or Rehabilitate Silver.—To restore the legal tender power to silver.

Brassage.—Same as Seigniorage.

Shekel about 219 grains, or about equal to our half-crown.

Talent of Gold.—About £225.

A *Sovereign* is a fixed weight of gold bullion, with an impression denoting it to be one-quarter of an ounce (not less than 122·5 grains) of 22-c. gold. It is the unit of value, and also the standard of value, in England and Australia.

Rupee is a certain weight of silver (180 grains). The unit of value and standard of value in India.

Monometallism is a system of currency which compels the debtor to discharge his obligations by tendering coins of one metal only.

Bimetallism is the right on the part of the debtor to discharge his liabilities at his option, in either of two metals, at a ratio fixed by law, accompanied by "Open Mints."

According to the *Gold Standard Defence Association*:—

"Bimetallism means the unlimited purchase of silver, at a price "materially above—indeed double—the existing market price."

The *Currency Question*:—

"The closure of all Mints to silver, while they have remained "open to the free coinage of gold at a fixed valuation, has enhanced "the purchasing power of gold compared with silver or other com-"modities.

"The price of uncoined silver being usually quoted in gold, this "phenomenon appears as a *fall in silver*, by which term it is gene-"rally known. Its causes, consequences, and remedy constitute the "Currency Question."—*Ency. Brit.*

Credit.—Power to borrow.

Assignats:—

"The paper money issued by the French Republic in 1789–1794, in "consequence of scarcity of coin, secured not upon coin, but upon "Crown and Church property, in purchase of which these notes were "receivable at par. Each note was for 100 francs (£4). At last an "assignat, professing to be worth £4, passed current for less than "threepence in money."—PALGRAVE.

Credit Foncier of France:—

"This institution is intended to enable house and land owners to "raise money on mortgage at a low rate of interest."—PALGRAVE.

AGIO.

The premium paid by the creditor for the privilege of receiving payment in specie, instead of depreciated paper currency, is called "Agio."

The same term is also applied in cases where several kinds of metallic money are legal tender to express the difference in value between them. It may also be defined as a sum demanded by a debtor from his creditor as consideration for his foregoing his right to choose between two kinds of currency, both being legal tender.

THE LATIN UNION

is the name given to the combination formed among the Latin nations—France, Italy, Belgium, Switzerland, and Greece, for the purpose of having uniformity of coinage, and to permit the gold and silver coins of each nation to circulate freely in either country, the one with the other.

The basis of this Union is that the 5-franc silver pieces should be received as full legal tender at a par of $15\frac{1}{2}$ of silver to 1 of gold; the smaller silver pieces (subsidiary coins) to be legal tender to the limit of 50 francs. This Union still exists, except that Italy has withdrawn from it, and has now a paper currency of inconvertible notes.

DEMONETISATION.

When any kind of money or currency is deprived of its debt-paying power, either wholly or in part, it is said to be "demonetised" to that extent.

Practically, however, when the debt-paying power of any kind of money is limited by law, it is absolutely demonetised, because it is not "full legal tender," but (if a coined metal) becomes merely subsidiary, or token currency. This was the case with silver in England when, in 1816, its legal tender limit was fixed at 40s.; and with gold in India when, in 1853, the

Government refused to receive in the public treasuries the gold coin then used as currency.

Demonetisation of a metal may also be effected by closing the Mints against it; as when, in 1873, the Latin Union closed their Mints to silver—an example followed by the Government of India in 1893.

In both these cases the legal tender power of the coin was not affected. In the Latin Union the 5-franc piece, and in India the rupee, both retain their legal tender power in their respective countries; but the legal tender power as "international money" was taken away because, as soon as the Mints were closed, in both cases the gold value of the silver in the coin fell below the legal tender value; or, as it is sometimes spoken of, the rupee was divorced from silver; and now the rupee itself is worth 1s. 4d., yet the value of silver in the coin is only worth about tenpence.

A Bank is primarily a money-lending institution; but banking business includes buying and selling of bills of exchange, the discounting of bills, the receiving of deposits (fixed and operative), and other transactions of a similar nature.

A Bank of Issue is one which issues its own notes, carrying on business partly on paper currency, consisting of promises to pay on demand.

The *Currency principle* requires that all notes issued by a bank should be fully covered by a reserve of coin or bullion. In practice, however, it is found that this reserve need not be equal in value to the amount of the note issue; as a matter of fact, a bank could not be carried on if confined strictly to this principle, and there has to be a certain amount of fiduciary issue allowed in order to make banking business at all profitable.

N.B.—This was the principle on which the 1844 Bank Act was established—viz., when bank notes are permitted to issue, they should exactly equal the gold they are alleged to displace.

PART II.

SYSTEM OF BANKING AND CURRENCY IN DIFFERENT COUNTRIES.

ENGLAND.

The Bank of England

was formed in the year 1693 by forty merchants, who subscribed £30,000 each to a fund to lend at 8 per cent. to the English Government to enable it to carry on the war in Europe.

It holds a charter from the State, and is managed by a Governor, a Deputy-Governor, and twenty-four Directors.

It is a private Joint Stock affair, and though not the largest is by far the most influential bank in the world.

Bills between foreign countries being generally made payable in London, the Bank of England notes are accepted as currency all over the world, and London is the clearing house of all nations.

It is divided into two departments—the Issue Department and the Banking Department.

The Issue Department holds Government Securities to the value of about $16\frac{1}{2}$ millions, against which it issues notes to the Banking Department. If the latter requires more notes over and above that amount it is supposed to deposit gold at the rate of five sovereigns for every £5 note. On occasions of emergency, however, this provision is not strictly enforced, for then the "Bank Act" may be suspended, and the Bank be allowed to issue notes not secured by reserves of gold.

Notes of the Bank are "legal tender" anywhere in England or Wales outside the Bank premises, so long as the Bank pays them in gold.

The Bank issues no note of less value than £5, and no note is ever issued a second time.

The "Bank Act" of 1844, the law by which the Bank of

England is controlled, is not by any means a perfect measure, but leaves much to be desired in the way of amendment.

Allison says of this Act, in his "History of Europe," Vol. II., p. 376:—

"The Bank Act should be entitled 'An Act for the better securing "'the inflations of speculation in periods of prosperity, and the entire "'destruction of credit in periods of adversity.'"

Macleod says of it, in his "Elements of Banking," p. 238:—

"For while times are quiet the Act is wholly in abeyance. . . "But when a real commercial crisis takes place—and it totally fails "to prevent these, as it was expected to do—and when the crisis "deepens beyond a certain degree of intensity, then the Act springs "into action with deadly effect. . . . And if the Act were rigor-"ously maintained, then universal ruin."

And on p. 211 he says:—

"In fact, the framers of the Act had a theory, and they passed an "Act; but they never took the slightest pains to ascertain whether "the Act corresponded with the theory."

By it the Bank is compelled to redeem its notes in new full-weight sovereigns when demanded. It is further hampered by the regulations that it must buy all gold offered at the rate of £3. 17s. 9d. per oz., no matter how little it needs gold; and at the same time it is bound to sell gold, whenever demanded, at the rate of (new sovereigns) £3. 17s. 10½d. per oz., no matter how much it may want to keep the reserve intact.

On account of these unwise provisions the Bank in times of crises has several times been compelled to resort to suspension of the Bank Act in order to avert the necessity of closing its doors.

The Bank must never refuse to pay gold for its own notes, and it is therefore a matter of the first importance to maintain its reserve of gold at such proportion of its liabilities as will permit it freely to pay out gold.

Whenever there is a drain upon its reserves, the Bank raises the rate of discount until the drain ceases, and gold begins to flow back into the Bank.

This device is found effective in ordinary cases, but it fails in times of crises—as, for example, in 1890, when a loan of £3,000,000 of gold from the Bank of France saved the Bank of England from a very difficult position.

The crisis of 1890 is thus described by Macleod in his "Theory of Credit," Vol. II., Part II., p. 836:—

"The crisis was only prevented by the splendid management of "the Bank of England from culminating in the most terrible mone-"tary panic recorded in history.

"At the time the whole available resources of the Bank under the "1844 Act were just about £10,000,000, which would have been nothing "but a drop in the bucket.

"Accordingly the Bank contracted a loan of £3,000,000 from the "Bank of France.

"The Bank on this occasion was saved by the energetic measures "of Mr. Lidderdale,* who is entitled to the gratitude of the whole "banking and mercantile community of the world.

"But it is too degrading to be repeated. Of course our excellent "friends, the French, are jibing and mocking at the Bank of England "being taken in tow by the Bank of France."

FRANCE.

The Bank of France

was established in 1800 by Napoleon, and is a private Joint Stock Company, formed specially for the purpose of helping tradespeople and discounting promissory notes or bills of any sound tradesman down to 100 francs (£4 in our money). These notes must bear the signatures of three responsible people. The administration consists of a Governor appointed by the State and two vice-Governors, and an Assemblée-Générale, composed of 200 of the largest shareholders, who elect the Conseil-General, consisting of fifteen Regents and three Censors.

The Bank's metallic reserve at the present time consists of about £75,000,000 in gold coin and bullion and £50,000,000 in silver 5-franc pieces.

* A benighted bimetallist.

Against this reserve the Bank has about £130,000,000 of notes in circulation.

The *Legal Tender* currency of France consists of gold 20 and 10-franc pieces, silver 5-franc pieces, and notes of the Bank of France to any amount, subsidiary silver coins (below 5 francs) to the value of 50 francs, and subsidiary copper (bronze) coins to value of 5 francs.*

The Bank of France may issue notes up to £150,000,000 without regard to "cover," *i.e.*, it is only compelled to provide a reserve of coin in proportion to its note issue. It has the option of redeeming its notes in either gold or silver legal tender coins. It is not compelled to buy gold when it does not want it, nor to pay out gold when it wants gold for the reserve. It is therefore not liable to the depletion of its reserve, nor does it feel the necessity of raising the rate of discount, except during crises, in order to counteract a drain of gold. On the contrary, it has been able to maintain its rate of discount at 2 per cent. for many years.

The Bank of France is not fenced in with such restrictive and compulsory conditions as surround the Bank of England. Although frequent political revolutions have repeatedly involved it in difficulties, and in 1848 and 1870 compelled it temporarily to suspend specie payment, even a severe financial crisis has little power to disturb its operations. Secure in the provision which gives it the option of redeeming its notes in either gold or silver, it is able to check at the outset any undesirable outflow of gold, and has therefore no need to fear the depletion of its gold reserve.

Its gold reserve being thus efficiently protected, it has no need to raise its rate of discount, or to suspend specie payments, or to fly for assistance in a monetary panic to any foreign

* It is only fair to point out here that I am in flat contradiction to Mr. J. H. Norman in the *Investor's Review* of 1895, Vol V., page 31, where he states practically that all silver is only subsidiary currency in France at the present time, and not *legal tender* for more than 50 francs.

country. Commenting upon this, the *Investor's Review* (Vol. IX., page 259), says :—

"Dealers in money in London often express an envious admira-
"tion for the ease with which the Bank of France appears to sur-
"mount crises that would send the Bank of England rate of discount
"flying up, and make our market as tremulous as the mercury in a
"barometer during a storm. All last autumn, for example, we stood
"in expectation of a 5 per cent. bank rate, while the Bank of France
"held its way unmoved with its rate of 2 per cent."

And it attributes this unshaken calm partly to the Bank's power to issue notes up to its maximum limit without creating a gold reserve to an equal amount, and partly to its power to give "a quiet refusal to pay out gold to exporters." But there can be no doubt that it is largely due to the fact that the Bank keeps a large stock of coin for the convenience of its customers, and is at liberty to give either gold or silver for its own notes.

[*Note.*—Though not strictly within the scope of this work, it would be unpardonable to omit in this place a comparison between the Banks of France and England. From what has been said above, it will be seen that, owing partly to the conditions imposed upon it by the Bank Act of 1844, and partly also to the consequences of rigidly maintaining its reserve in gold, the Bank of England has been repeatedly brought into difficulties, from which it has only been saved by the timely suspension of the injurious conditions imposed by law. To prevent the depletion of the reserve, which is absolutely essential to its existence, it is frequently compelled to resort to the device of raising the rate of discount (against its own customers) ; and in a critical emergency, when not allowed to suspend its charter, and frightened to raise the discount* above 6 per cent., it had no other resource but to rely upon foreign assistance (a thing which Sir Robert Peel condemned), and that assistance it has more than once received from the Bank of France.

* Macleod's "Theory of Credit," Vol. II., Part II., page 837.

It must be admitted, therefore, that it does not possess that stability and security so eminently desirable in an institution so prominent and powerful. Nor can it be denied that the mechanical devices to which it has recourse in times of crises and panic are too feeble in conception and in effect to meet a great emergency with controlling firmness and strength.]

The United States of America.

In the United States of America the Federal Government is not represented by any institution resembling the Bank of England or the Bank of France.

There was formerly a "Bank of the United States," but in 1837 President Jackson, who took a dislike to a National Bank, refused his signature to the renewal of the Charter, and as the measure had not been passed by a two-thirds majority of Congress, the President's veto was final. Ever since then the Government of the United States has been in a muddle in connection with Banks and Currency. Every State has its own Banking Laws. But the Federal Treasury acts as a State Bank, issues bonds, notes (called greenbacks), and other varieties of "promises to pay," on behalf of the Federal Government, and as security, or "cover," for these it is compelled to hold a reserve of not less than £20,000,000 in gold. The necessity of maintaining this reserve, while at the same time compelled to pay gold on demand for its own bonds and notes, involves the Treasury in difficulties of the same kind as those which affect the Bank of England from a similar cause. But the Treasury cannot help itself by the mechanical device of raising the rate of discount, because it transacts no business of that character. When its reserve falls below that amount (£20,000,000), it has no other means of replenishing its stock except by borrowing; that is to say, to provide for the present, it discounts the future by issuing more "promises to pay," in the shape of "bonds," or 'debentures" we would call them.

The currency of the United States is a complicated medley,

the intricacies and inconveniences of which are quite sufficient to account for the frequent financial difficulties resulting from it.

There are—1. Gold coins of the value of 5, 10, 20, and 25 dollars, which are legal tender to any amount.

2. Silver dollars, equal to about 4s. 2d. in our English money, which are legal tender to any amount, except where otherwise expressly stipulated in the contract.

3. Treasury notes, issued under the Act of 1890, which are also legal tender, "except where otherwise stipulated in the contract."

4. United States notes (greenbacks), legal tender, except for interest on the public debt.

5. National Bank notes, legal tender for any debt or liability to any National Bank, and also for all Government dues, except duties on imports. They are also tenderable for all Government debts, except interest on bonds.

6. Subsidiary silver coins, smaller than one dollar, are legal tender to the amount of 10 dollars. There are also nickel tokens.

The unit of value is the dollar, formerly 371½ grains of pure silver, now 22·2 grains of pure gold.

All Banks in the United States are required, by law to hold a reserve of Federal Government bonds, and according to Horace White:—

> "If they desire to issue notes against gold, on the plan of the Bank of England, they could not do so, because the law would not allow them."

The complicated nature of the laws regulating Banks and the Currency combine to create a situation of instability.

The Banks are under the supervision of a Government officer called the "*Controller of the Currency.*"

This official sanctions the opening of fresh Banks, and it is his duty to inspect all the securities and books of the Banks, and see that all Banks keep the requisite reserve of Government

bonds for cover to their own note issue; and he may close any Bank which, in his opinion, has not sufficient security.

The National Banks are alone authorised to issue notes, but they must be secured by United States bonds. The note issue is limited to 90 per cent. of the bonds they hold.

The Dominion of Canada

has no definite system of Currency prescribed and regulated by law, yet the growth of custom and the adoption of circumstances have evolved a system which has been by some described as "the best in the world." Professor Jevons says of it, however:—

> "In Canada there is an intricate confusion of monetary systems. "There being no National Mint, the circulation consists of many "species of foreign coin, chiefly varieties of the dollar. The monetary "unit is the dollar taken as equal to 50 pence (Eng.), but this is "represented by bank notes, and not by coin."

Though without a Mint or a Currency of her own, Canada is able to manage her financial affairs in a very sound manner. The Banks are private proprietary institutions, issuing notes against which is kept a reserve of Dominion notes and of gold very small in proportion to the amount of notes in circulation. The Dominion Government also issues notes against which a small reserve of gold is kept, and which are legal tender throughout the Dominion. The coin in circulation consists principally of English and American gold and American silver dollars, with subsidiary coins of silver, copper, and nickel coined at the London Mint. The silver coinage is legal tender up to 10 dollars. Money is reckoned in dollars and cents, as in the United States, and the American dollar is the unit of value.

The fact that Canada has not suffered very acutely from financial troubles, such as those which have been recently endured by the other civilised nations, may be attributed to her exceptional national prosperity, the fertility of her soil, the abundance of her natural resources, the energy and frugality

of her people, and the comparative inexpensiveness of her Government.

Germany.

The Banking system in vogue in Germany bears a strong resemblance to the English; in fact, it is a modification of the 1844 Bank Act.

The Imperial Bank is the national Bank, having in 1897 a reserve of 41⅓ millions, and a note issue of 54 millions. It is private proprietary, and its notes are "legal tender" throughout the Empire, and the improvement on the English system is that the Bank is allowed to exceed its cover by payment of 5 per cent. tax to Government on the total excess of issue, instead of suspending the Bank Act. The currency consists of gold, silver, and nickel coins and Imperial Bank notes.

The unit of value is the silver mark (a token), worth about one shilling English, which is legal tender only to 20 marks, as well as all the rest of the silver coins issued under the new system. The gold piece of 20 marks is legal tender to any amount, and the Imperial Bank notes, as well as the old silver thaler (three shillings English), but which is no longer coined.

The peculiarity of the system is that there are two units of value—the mark, a token not legal tender for more than 20 marks, and the old thaler (3s.), which is still full legal tender, the 5-mark piece being only legal tender up to 20 marks, while the 3-mark piece is unlimited legal tender.

The post-offices in Germany, and throughout the Continent, transact a great deal of banking business. For a payment of twopence any sum up to 20s, and twopence for every 20s. or part of 20s. over that sum, may be sent by post and delivered into the hands of the payee just as a registered letter is delivered amongst ourselves.

In Australia

the prevailing system of banking is a modification of the Scotch system, which differs from the English system in some

important particulars, as, for example, in the greater freedom in dealing with discounts and advances, and in a wider scope of its business in general. Australian Banks, therefore, fulfil all the functions of English Banks, and also those of discount houses, bill-brokers, and mercantile and industrial financiers.

All Banks issue notes from £1 upwards, against which they hold reserves of gold, in which metal all notes are payable on demand. Though accepted as currency, these notes are not legal tender except (when determined by law) in 1893.

The coinage in circulation is the same as in England, consisting of the sovereign and half-sovereign in gold (full legal tender), the crown, half-crown, florin, shilling, sixpence, and threepence in silver (legal tender to 40s.), and the penny and halfpenny in bronze (legal tender up to 12 pence).

The currency consists of these coins, bank notes, postal notes, and money orders, and to a considerable extent of private cheques and orders payable on demand.

On account of the great freedom with which these private cheques are accepted as currency, business people are liable to be imposed upon, unless the greatest care is exercised and every precaution taken to prevent fraud from being successful. When the bulk of business transacted by cheque is taken into account, the comparatively small losses incurred through forgery and other false pretences is a very small price to pay for the immense convenience of cheques as currency in localities far removed from Banks and banking facilities.

Owing to the wide scope and diversity of their business, Australian Banks are exposed to the danger of being involved in any great calamity which may overtake the industrial or commercial branches of the community.

Their fate is, indeed, more intimately bound up with the fortunes of their clients than is altogether consistent with safety. In times of stress and strain, when the ordinary currents of business are disturbed, the securities representing a large proportion of banking business are not found sufficiently liquid to

be of service when the Banks are subjected to a sudden drain upon their reserves.

In 1893 the device adopted by the Government of New South Wales, to enable the solvent institutions to tide over a temporary difficulty of this kind, was to make their notes full legal tender for the time being. By this means an absolute financial collapse way averted, and a storm was quelled which would otherwise have inflicted terrible injuries upon all the Australian Colonies.

The Banks, being thus relieved of the obligation to provide gold wherewith to redeem their notes, were made secure until the panic subsided, and then in due course reverted to the regular routine.

The ordeal of 1893, from which few of our financial institutions escaped altogether scatheless, has left behind it many legacies of debt and difficulty, which are being slowly and painfully, yet in most cases surely cancelled. It has also taught us lessons in patience and frugality and caution, and has opened our eyes to the danger of over-confident speculation.

It has also exposed the fatal weakness of our currency system (Gold standard), which answers well enough under ordinary circumstances, but breaks down when difficulties have to be overcome.

It should be observed that our bank notes, when made temporarily "inconvertible," suffered no depreciation on that account; and it would certainly not militate against them in public estimation if, instead of being inconvertible, they were made *payable in gold or silver* at the option of the Banks. Under ordinary circumstances, if the Banks observe a reasonable consideration for the public convenience, no harm could come from such an improvement upon our present system of currency; and in times of panic and excitement the option would add materially to the reserve strength of the Banks, without putting any disadvantage upon the public, and it would obviate the necessity for departing from the ordinary routine. These great

advantages could not accrue without making silver legal tender equally with gold.

It may reasonably be argued that if the device of making bank notes legal tender during the financial disturbances of 1893 relieved the situation and averted widespread disaster, surely silver could be made "*legal tender* to any amount" with equally beneficial effect; and it may be urged, with equal force, that the wider the basis the greater will be the stability of our currency system. For it is clear that a system balanced upon only one leg (Gold standard) is less firm than a system which stands upon two legs (Gold and Silver).

CHRONOLOGICAL TABLE.

1797. The Bank of England suspended specie payments.

1798. English Mint closed to silver.

1803. The French Law (of Germinal, year XI.) Mintage of gold and silver at a ratio of $15\frac{1}{2}$ to 1.

1811. Bullion Committee sat.

1816. Legal tender taken from silver in England for sums above 40s.

1817. Bank of England attempted to resume specie payments, but failed in the attempt on account of the 1816 Act (*see* Macleod's "Elements of Banking," page 207).

1819. Bank of England again under suspension of specie payments.

1819. Act (commonly called Peel's Act) passed, compelling the Bank to resume specie payments after 1st May, 1823.

1819. This 1819 Act, according to Mr. H. D. Macleod (*see* "Elements of Banking," page 207), never came into operation at all.

1821. Bank of England resumed specie payments.

1825. Bank crisis.

1826. Act passed suppressing all notes below £5.

1839. Bank had to negotiate a foreign loan.

1844. Present Bank Act passed.

1847.
1857. Bank Act suspended.
1866.

1862. The United States of America suspended specie payments.

1872. Bank of France suspended specie payments, after paying £200,000,000 indemnity to Germany.

1873. Mints of the Latin Union and America closed to silver.

1879. The Bank of France and the Treasury of the United States of America resume specie payments.

1893. Indian Mint closed to silver.

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TITLE